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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000419

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NEA/ARP, EEB/ESC/IEC/EPC FOR GLENN GRIFFIN
COMMERCE FOR 4520/ITA/MAC/ONE/THOFFMAN

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SUBJECT: OIL MINISTER SAYS IRANIAN GAS TALKS ANNOUNCEMENT
IS TACTIC AIMED AT QATAR

REF: MANAMA 1750

Classified By: Ambassador William T. Monroe, reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) Minister of Oil and Gas Affairs Dr. Abdul Hussein Ali Mirza confirmed to the Ambassador that the GOB is in talks to import gas from Iran but claimed that there was no expectation such a deal would materialize and that it is merely a tactic to increase Bahrain's leverage in gas negotiations with Qatar. Mirza also stated that Bahrain needs to increase gas production from 1.2 to 1.7 million cubic feet per day by 2010 in order to keep pace with growing demand, which it will do. The GOB has pursued the possibility of acquiring Saudi and Kuwaiti gas, without success. The GOB has tendered four offshore blocks for oil and gas exploration with hopes of signing a successful agreement by year end. End Summary.

IRANIAN TALKS TO STRENGTHEN HAND WITH QATAR

¶2. (C) In an April 25 meeting with Minister of Oil and Gas Affairs and National Oil and Gas Authority (NOGA) Chairman Dr. Abdul Hussein Ali Mirza, the Ambassador expressed deep concern over recent press reports that the GOB was in talks with Iran to import gas. The U.S. would be strongly opposed to such an agreement. The Ambassador noted that these reports contradicted Mirza's assurances to him in September 2006 that despite Iranian eagerness to supply gas to Bahrain, the GOB was resisting Iran's overtures in anticipation of USG disapproval.

¶3. (C) Mirza acknowledged that the reports were true, but claimed that there is no expectation the Iranian gas imports would materialize. "Although they said they will supply us, their offer has to be reviewed by their technical committee, which could take two years or more. Everyone knows how the Iranians are." Mirza explained that the motive in announcing gas talks with Iran was to strengthen Bahrain's hand in negotiations with Qatar. "Qatar needs to know that there are others."

EXPLORING ALL AVENUES

¶4. (C) Mirza said Qatar had over-committed its gas supplies and was currently studying the situation. However, Qatari officials had assured the GOB that Bahrain would be the first to receive a new commitment for gas once the Qatari study was complete. Mirza added that the GOB had also approached KSA officials regarding the possibility of importing Saudi gas, but was told that Saudi Arabia had only enough supply to support domestic consumption. He said overtures for Kuwaiti gas had also not been productive. "Bahrain is a sovereign state. We need to make sure we have tried every avenue. Parliament will ask us what we have done."

¶5. (C) Mirza said Bahrain needs to increase gas production from 1.2 to 1.7 million cubic feet per day by 2010 in order to keep pace with growing demand, and anticipated that this would be done by expanding domestic production. "This will give us breathing room" until further supplies could be identified, either from abroad or from new domestic fields. Mirza said he had evaluated liquefied natural gas and fuel oil, but that both appeared to be prohibitively expensive alternatives. Mirza added that an integrated GCC power grid, which is projected to link the six GCC states via a combined electricity network by 2010, would ease Bahrain's gas supply needs, allowing more gas to be allocated for industrial needs. (Note: Bahrain's installed power generation capacity remains barely ahead of current consumption. Bahrain will invest an estimated \$1 billion to generate an additional 1200MW planned by 2010 as part of a strategy to meet the five percent annual increase in power demand.)

NEW EXPLORATION BLOCKS ATTRACT WIDE INTEREST

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¶6. (C) Mirza highlighted NOGA efforts to increase transparency in its bids process, as evidenced in its recent tendering of four offshore blocks for oil and gas exploration. NOGA has established a website (www.bahrainoffshorebid.com) to make up-to-date tender information available to potential bidders. Some 66 companies had thus far expressed interest, including several U.S. firms. Most data is now available on the website, but companies interested in seeing seismic data could register to obtain an appointment to review the data in person on NOGA's premises after May 1.

¶7. (C) Mirza said that the area comprising six offshore blocks previously designated for exploration (reftel) had been repackaged as four larger blocks to make bidding more attractive. He added that the GOB's new Exploration, Production and Sharing Agreement had also been made more attractive with the discontinuation of a formerly-required signing bonus of \$20 million. Bidding will close 30 September. The concession must be approved by parliament, but Mirza anticipated that the concession would not be challenged. He hoped to sign with the successful bidder before year end.

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